

VZCZCXRO2563  
OO RUEHCHI RUEHDT RUEHHM RUEHNH  
DE RUEHGO #0067/01 0350748  
ZNY CCCCC ZZH  
O 040748Z FEB 09  
FM AMEMBASSY RANGOON  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8626  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHBY/AMEMBASSY CANBERRA 1775  
RUEHBJ/AMEMBASSY BEIJING 2183  
RUEHKA/AMEMBASSY DHAKA 5109  
RUEHNE/AMEMBASSY NEW DELHI 5249  
RUEHUL/AMEMBASSY SEOUL 8849  
RUEHKO/AMEMBASSY TOKYO 6421  
RUEHCN/AMCONSUL CHENGDU 1699  
RUEHCHI/AMCONSUL CHIANG MAI 2044  
RUEHCI/AMCONSUL KOLKATA 0547  
RUEAIIA/CIA WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEKJCS/DIA WASHDC  
RUEHGV/USMISSION GENEVA 4252  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUCNDT/USMISSION USUN NEW YORK 2243  
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000067

SIPDIS

STATE FOR EAP/MLS, INR/EAP  
DEPT PASS TO USDA  
DEPT PASS TO USAID  
PACOM FOR FPA  
TREASURY FOR OASIA, OFAC

E.O. 12958: DECL: 02/04/2019

TAGS: [ECON](#) [EFIN](#) [PREL](#) [PINR](#) [BM](#)

SUBJECT: BURMA: KYAT APPRECIATES 12 PERCENT AGAINST US  
DOLLAR IN PAST FOUR MONTHS

REF: A. 08 RANGOON 892

[1](#)B. RANGOON 57

[1](#)C. RANGOON 54

RANGOON 00000067 001.2 OF 003

Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4  
(b and d).

Summary

-----  
[1](#)1. (C) Although the Burmese kyat traditionally appreciates against the U.S. dollar during the dry season (October-April), the kyat has appreciated more than expected -- 12.4 percent -- since October 2008. Burmese economists, emphasizing the importance of supply and demand, speculate that the recent influx of tourists, coupled with U.S. dollar payments for natural gas sales, may have increased the local supply of dollars. They add that the global financial crisis has significantly affected Burma's international trade, resulting in lower demand for U.S. dollars and further depreciation of the U.S. currency against the kyat. End Summary.

Kyat Up, Dollar Down  
-----

[1](#)2. (SBU) Burma is one of the poorest countries in Southeast Asia, ranked 135th on the UN's 2008 Development Index. Most Burmese earn an average income of 2,000 kyat (less than USD 2) a day, and spend almost 70 percent on food. Since August 2007, the prices of locally produced food and commodities, as well as imported goods, have risen due to higher production and transportation costs. As Burma's economy continues to

deteriorate due to government mismanagement (Ref A), there has been a more-than-expected appreciation of the kyat against the U.S. dollar during the past four months. Economists are seeking an explanation.

¶3. (SBU) The value of the kyat against the U.S. dollar fluctuates throughout the year -- typically appreciating during the dry season (October-April), when there are more tourists bringing dollars into the country and trade is higher, and depreciating during the rainy season due to reduced supply of U.S. dollars. Overall, from 2004 to 2007 the kyat appreciated against the U.S. dollar by an average of three percent annually. However, in 2008 the Burmese currency appreciated by more than twice that amount -- 7.4 percent -- against the dollar.

¶4. (C) The drop in the value of the kyat during the last rainy season, at around 2 percent, was particularly low compared to past years (see chart below for 2008 monthly exchange rates). Economists were surprised given that the country was reeling from the devastation caused by Cyclone Nargis during that period. Several analysts pointed out that natural disasters commonly undermine the strength of the national currency. However, economist U Myint noted that humanitarian assistance contributions to Burma increased the supply of U.S. dollars, weakening that currency vis-a-vis the kyat. The sharp 12 percent rise in the kyat against the U.S. dollar in the past two months stands in contrast to the weakness of other regional and world currencies vis-a-vis the dollar in the same period (see second chart below).

-----  
Kyat-U.S. Dollar Exchange Rates

RANGOON 00000067 002.2 OF 003

2008-2009

Month/Year	Average Kyat Rate/USD 1	Percent Change*
December 2007	1280	---
January 2008	1249	- 2.42
February 2008	1192	- 4.56
March 2008	1107	- 7.13
April 2008	1112	0.45
May 2008	1134	1.98
June 2008	1162	2.67
July 2008	1183	1.81
August 2008	1211	2.37
September 2008	1256	3.72
October 2008	1233	- 1.83
November 2008	1261	2.27
December 2008	1193	- 5.40
January 2009	1080	- 9.47

\*Negative figure shows kyat appreciation against USD

-----  
USD-Foreign Currency Values  
October 1, 2008 - January 21, 2009

Currency	10/01/08 Rate Vs. \$1	01/31/09 Rate Vs. \$1	Percent Change*
S'pore Dollar	1.43	1.51	5.59
Thai Baht	34.00	34.95	2.79
Euro	0.71	0.78	9.86
Japanese Yen	105.84	89.90	- 15.06
Swiss Franc	1.12	1.16	3.57
Burmese Kyat	1233.00	1080.00	- 12.43

\*Negative percent change indicates appreciation of currency against U.S. dollar.

15. (C) The appreciation of the kyat affects many Burmese, particularly those who are paid or do business in foreign currencies. In the past few months, Embassy local staff, who are paid in FEC (equivalent to the USD), have suffered substantial losses when converting their salaries to kyat since their salaries, fixed to the dollar, buy them fewer kyat. Additionally, the considerable number of Burmese who depend on foreign remittances to make ends meet now receive fewer kyat when they convert their money (septel). The dollar's depreciation -- particularly when combined with continued rising inflation -- is also affecting the Burmese who hold their savings in the U.S. currency (a popular practice among those with the means, even though possessing foreign currency without a license is illegal).

Supply and Demand, GOB Intervention, or Both?  
-----

16. (SBU) So what is behind the kyat's strong performance against the dollar? Economic data indicate that 2008 was an average year by Burmese standards: growth was 3-4 percent (Ref A), trade increased by 3 percent (Ref B), and inflation remained high at 25 percent. Additionally, Burma continues to recover from the damage Cyclone Nargis afflicted on the country in May 2008. Economists argue that Burma's isolated

RANGOON 00000067 003.2 OF 003

economy, the regime's strict foreign currency controls, and the fact that the kyat is not a world currency make the kyat relatively immune to world financial pressures. Therefore, the kyat continues to appreciate cyclically against the U.S. dollar, regardless of how other currencies fare.

17. (C) According to Burmese economists, bankers, traders, and money changers, one explanation for the kyat strengthening more than seasonally expected in the past four months is that Burma's supply of dollars increased dramatically due to a rebound in fourth quarter tourism versus the same period in 2007 (Ref C). (Note: Tourism dropped dramatically after the September 2007 political crisis.)

18. (C) Another possible explanation is government manipulation. Economist U Myint speculates that the GOB, which in December received a late payment for its natural gas sales, may have released some dollars into the market to compensate for the loss in export dollars and to "prove" that the world financial crisis is not affecting Burma. He added that the GOB, which has clear control over the Central Bank, has been known to manipulate the kyat/U.S. dollar ratio for its own benefit. Economist U Maw Than told us officials from the Ministry of Finance and Planning asked him during early January discussions on the financial crisis how to improve the relative strength of the kyat.

19. (C) A lower demand for U.S. dollars may be another part of the explanation for the kyat's appreciation. According to U Myint, the demand for dollars may be falling due to difficulties in obtaining import and export licenses necessary for USD-denominated trade. Also, a local business consultant told us that, due to the recent crash of Burma's bean and pulses industry (valued at 230 billion kyat or USD 230 million - see septel), the GOB is forcing traders to pay debts in kyat instead of U.S. dollars (the normal practice).

110. (C) Whatever the explanation, it is clear the dollar continues to play an important financial role in Burma, despite both the regime's currency controls and U.S. sanctions. Fluctuations in the dollar-kyat exchange rate have meaningful effects.

DINGER